

# How to Encourage Agencies to Do More with Less

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***The opinions reflected in this paper do not necessarily represent the positions of the agencies where the VEI members are employed.***

# **Doing More with Less**

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## **Leadership Challenge**

How to encourage state agencies to streamline governmental operations by “doing more with less”?

## **Project Objective**

Define ways to encourage and reward state agencies and employees for being more productive, eliminating or changing inefficient processes, reducing waste, eliminating duplication, and streamlining overall operations.

## **Need for Cost Containment**

- Government resources should be soundly and prudently managed
- Government resources are limited
- Identified savings can be used to enhance priority services
- Private sector has been able to demonstrate large productivity gains
- Expectation of taxpayers
- State employees are taxpayers

## **Virginia's Efforts to Date**

### ***Virginia Employee Suggestion Program***

- Legislation created in 1985
- All executive branch employees are eligible
- Program responsibility was moved from Human Resource Management to agencies in 1994
- Cash awards, leave time, or certificates given to employee making suggestion
- Program participation and identified savings have steadily declined. In FY 2000, only 11 employees were rewarded and less than \$20,000 in savings identified

### ***Productivity Savings***

- Governor Gilmore challenged agencies to identify \$91.7 million in productivity savings this biennium.
- Agencies submitted plans for increasing productivity
- Technology enhancements accounted for 20% or \$18.5 million of the savings
- 49% or \$45.3 million of the savings came from more efficient business practices

## **Best Practices in Other States**

### ***Common Themes***

- Employee suggestion programs
- Agencies retain all or part of savings
- Agencies allowed to carry forward all or part of June 30 balances
- Employee buy-in

### **Kansas**

Agencies retain 50% of balances for employee bonuses, training, and technology

### **Louisiana**

Agencies retain 50% of savings with employees getting one-half of agency savings

### **Michigan**

Employee suggestion program expanded to include retirees and employee groups

### **Nebraska**

Agencies given savings targets. Are allowed to keep portion for technology and other efficiency efforts

### **Ohio**

Governor partnered with employee association to promote productivity and quality

### **Pennsylvania**

Agencies directed to form innovative teams to assess continued need for core services

### **Texas**

Employee incentive program allocates 10% of savings to employees and 90% to agency

### **Washington**

Agencies retain 50% of June 30 balances. Remainder goes to higher education and public school construction.

### **West Virginia**

Resource sharing among agencies encouraged

## **Federal Government Efforts**

- Require competitive bidding for non-critical services
- Foster critical re-examination of services

## **Recommendations**

### ***Critical Reassessment of State Government***

- Are we doing more than what we should? If so, scale back.
- Do we need the same number of agencies that we currently have? If not, merge or dissolve agencies/boards/commissions.
- Are there current policies and processes in place that are obsolete? If so, change them.
- Is state government being effective in the services it provides? Customer service, as well as the delivery of services, is vital to the functioning of the agency.

### ***Modify culture of state government***

- Flatten Management
- Develop Awards and Incentive Programs
- Greater Focus on Self Esteem and Self Awareness
- Open Communication

### ***Strengthen the Employee Suggestion Program***

- Centralize responsibility in the Department of Human Resource Management
- Appoint advisory committee
- Change name of program
- Allow retirees to make suggestions
- Allow group rewards

### ***Initiate Gainsharing by state agencies and institutions of higher education***

- Agencies retain 50 percent of unspent general fund appropriation
- Requires pre-submitted utilization plan
- Amount designated for employees (50 percent of agency portion)

### ***Initiate Gainsharing by state employees***

- Employee Buy-In
- Accountability
- Cash Bonus
- Purchase Specific Items or Services
- Overall Improved Morale and Performance

### ***Establish a Venture Capital Fund***

- Agencies lack funds to purchase equipment and technology that will generate long-term savings
- Provide general fund appropriation to establish a venture capital fund administered by Secretary of Finance
- Agencies repay Fund from realized savings

- Awards based on merit and magnitude of savings

***Encourage joint ventures among state agencies***

- Centralized common services like payroll distribution and human resource services
- Centralized agency contracts, procurements and distribution points
- Utilized technology for point of need delivery
- A reduced unit cost for each agency
- Reduce lost and damaged equipment
- Reduce surplus of unused supplies
- To maximize the buying power of state agencies as a whole

# How to Encourage Agencies to Do More with Less

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## Leadership Challenge

What steps should the Governor take in his outgoing budget to encourage more productivity among state agencies and to streamline governmental operations by “doing more with less”?

## Project Objective

To define ways in which state agencies will be encouraged and rewarded for being more productive, eliminating or changing inefficient processes, and streamlining overall state government operations.

The overarching question is how will the required levels of service be obtained and maintained by state agencies with the given level of resources?

State employees have been asked to do more with less during the last ten years. This was due to the economy in the early 1990s and the two buy-out programs that ensued. Reducing the number of employees was addressed, but the question of identifying unneeded workload was neither addressed nor quantified. To be effective, the current “do more with less” issue must address the question of workload as well as the number of employees just doing more of what may or may not be needed. This requires the contributions of the Commonwealth’s most valuable asset, the state employees, be recognized and sets the stage for an employee education and training program. Business has found this type investment to pay major dividends to the company.

## Need for Cost Containment

For a state government to maintain the trust and confidence of its citizens, it must soundly and prudently manage the state’s financial resources and systems. In today’s times of economic and technological change, it is imperative that Virginia’s state government responds accordingly. Managing change requires careful planning and execution on the part of state employees. The achieved savings across state government can be used for addressing other priorities in education, health and human services, and economic development.

In September, the Bureau of Labor Statistics of the U.S. Department of Labor reported national labor productivity data for the second quarter of 2000. The level of labor productivity, that is the output of labor per hour worked, increased by 6.5 percent in the business sector over the previous quarter. Advancements in U.S. productivity have allowed companies to boost production, lower costs, and pass those savings on to consumers in the form of stable prices for goods and services.

Productivity over the last five years has been rising at rates greater than those recorded between 1970 and 1990. The explosive growth of the information technology industry has been instrumental in boosting productivity. The power and continuing evolution of the Internet, made possible by advances in the information technology industry, is enhancing productivity growth in nearly every industry, including government. The latest productivity numbers provide more evidence for analysts and investors that massive strides in technology have boosted productivity and kept costs down for companies.

If the private sector can generate such large productivity gains, it is clear that state government can also become more efficient and productive. During the Gilmore administration, many initiatives have been proposed and implemented to enhance the services provided to the Commonwealth's citizens while also increasing the productivity and efficiency of state government. Some of these initiatives include:

- **Increased use of technology.** Agencies have enhanced “web-enabled government” by placing government services on the Internet for immediate, low-cost access by citizens. These online services reduce costs for agencies in many areas, including the receiving and processing requests, copying, printing, and postage. For example, the Department of Motor Vehicles now allows citizens to renew drivers’ licenses on the Internet, and the Virginia Employment Commission and Department of Human Resource Management have paved the way for citizens to use the Internet to search for state job openings and download state employment applications.
- **Improved energy management.** State facilities have achieved energy improvements through the application of alternative and renewable technologies. The Department of Mines, Minerals and Energy has worked with agencies to determine the viability of various energy efficiency proposals. Examples of these projects include improvements in heating and air conditioning environmental controls, modernization of electrical and lighting systems, and physical upgrades to buildings.

## Full Cost Accounting

Agencies must track the full cost of their operations before they can link spending decisions to performance goals. Full knowledge of a program’s costs enables lawmakers to make informed choices about how increasing or decreasing funding would affect program results. If agencies know the unit cost of an activity, they could see what the impact of a change in funding would be. At present, many agencies are unable to account for the overhead, support, and nondirect costs associated with their programs.

## Virginia's Efforts to Date

### *Virginia's Employee Suggestion Program*

State employees need to be empowered with greater authority and control over how services are delivered. States can encourage employees to share in the process of improving productivity in many ways including creating a means for making suggestions about the work product or process and recognizing employee suggestions.

In 1985, the Virginia General Assembly passed legislation which created Virginia's Employee Suggestion Program (ESP) whereby employees can be recognized and rewarded for adopted ideas that improve their agencies' and state government's operations. All agencies are required to have an ESP. Suggestions are defined as a proposal made by an eligible state employee that may result in increased productivity, a reduction in state expenditures, an improvement in the quality of state service, or an increase in state revenue. All full-time classified, part-time classified, and wage employees in the Executive Branch agencies are eligible to participate.

Six factors are used to estimate the value of a suggestion: (1) degree of improvement in operations, forms, facilities or equipment; (2) degree of improvement in employee relations, working conditions, safety, service to the public or public attitude; (3) extent of application; (4) completeness of proposal; (5) effort involved; and (6) cost of adoption.

ESP rewards include cash payments, days of leave, and certificates of recognition. Awards vary based on how the suggested action impacts the overall operation of the agency. Monetary awards are authorized only for eligible employees whose ideas are adopted and implemented and result in quantifiable dollar savings or revenue. Cash awards are made by agencies from the dollar savings and/or revenue actually generated by suggestions. Suggestions are ineligible for award consideration when an employee can be expected to effect them as part of his or her job duties, responsibilities and assigned tasks, or when an employee can implement them without higher level approval.

Cash awards are computed as a percentage of the first year savings or revenue as outlined below.

<i>Net First Year Savings/Revenue</i>	<i>Cash Award</i>
> \$20,000	\$5,000 + one percent of savings over \$20,000
\$501 - \$20,000	25 percent of savings
\$101 - \$500	25 percent of savings or one day of leave (employee option)
\$100 or less	No cash award may be made

Eligible employees may receive non-cash awards of one to five days of leave for suggestions that result in significantly improved processes, programs, or safety, for which benefits are not quantifiable. Certificates of recognition signed by the Governor and the employee's agency head



are to be presented to the employee for ideas that are adopted or considered worthy of recognition.

Below is a summary of ESP activity over the last seven years.

### Summary of ESP Activity (1993-00)

<i>Fiscal Year</i>	<i># Suggestions Received</i>	<i>Estimated \$ Savings</i>	<i>Dollar Awards</i>		<i>Leave Awards</i>		<i>Certificates</i>
			<i># Receiving</i>	<i>Total \$\$ Awarded</i>	<i># Receiving</i>	<i>Days Awarded</i>	<i># Receiving</i>
1994	613	\$214,456	29	\$46,223	49	108	11
1995	618	\$ 97,764	18	\$16,122	31	58	14
1996	535	\$234,057	23	\$37,845	39	65.4	46
1997	374	\$ 88,006	15	\$22,371	52	80	53
1998	267	\$136,229	20	\$26,758	30	39	84
1999	175	\$95,656	8	\$18,727	34	58	2
2000	113	\$16,004	4	\$3,221	7	10	0

Since the program's inception, suggestions that have been recognized have included recommendations for new tools, streamlining or eliminating unnecessary steps in the workflow, and designs for systems to improve costs, safety, and time.

When the program began, the Department of Human Resource Management (DHRM) had centralized responsibility for receiving suggestions, forwarding suggestions to the appropriate agencies for evaluating, monitoring the evaluation and eligibility process, promoting the program, and approving the issuance of awards.

Although DHRM still oversees the program; on July 1, 1994, the Employee Suggestion Program was decentralized to permit agencies more flexibility. Under the decentralized program, employees submit their suggestions to their agency ESP Coordinator who forwards the suggestion to the person in their agency responsible for evaluation. If the suggestion does not pertain to the employee's agency, the ESP Coordinator determines the appropriate agency to evaluate the suggestion and forwards to that agency.

The decline in the number of suggestions can be attributed to the decentralization of the process. The impact of a suggestion is sometimes lost during the weeks and months required to get it reviewed by managers who are in the best position to assess the merits of the proposal. Although most of the larger agencies have programs in place to promote the ESP, the program has "slipped through the cracks" in smaller agencies. New employees are often not made aware of the existence of the program.

### ***Productivity Savings***

One of the challenges facing all managers in state government is providing higher quality services with greater efficiency and effectiveness. Given tough economic times, unfunded

federal managers, and public cynicism about the growth of bureaucracy, it is almost unavoidable that the same number or fewer employees provide these services.

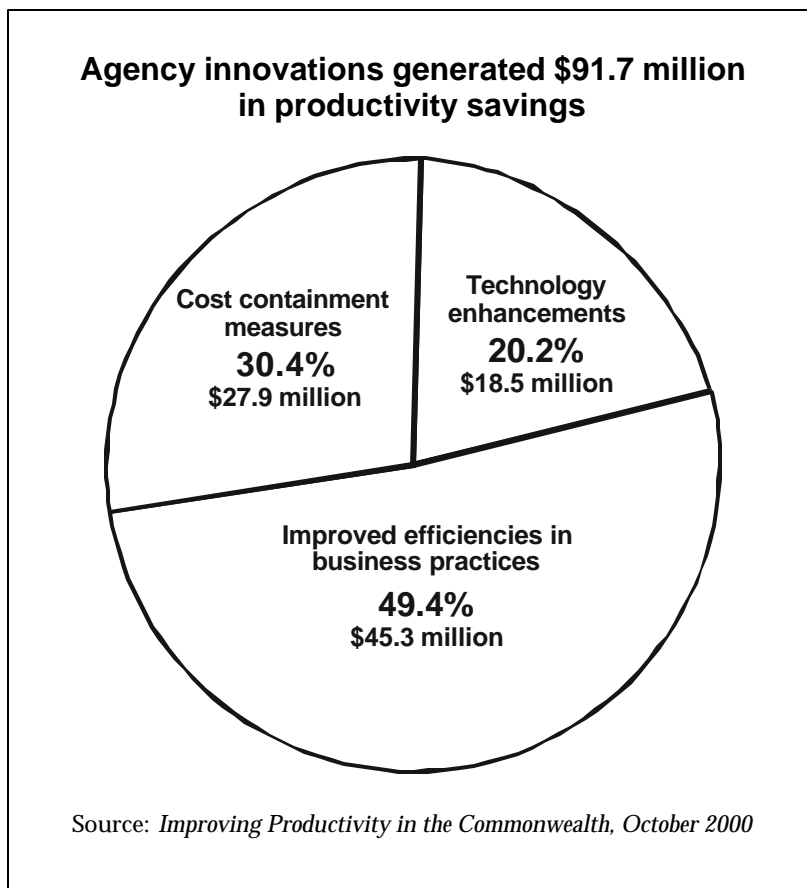
The taxpayers of the Commonwealth deserve the most efficient government possible. One of the principal objectives of the Gilmore Administration is to encourage state agencies to develop innovative and effective ways to deliver services to the people of the Commonwealth in the most efficient way at the least cost.

In his 2000-2002 biennial budget, the Governor asked agencies to develop specific plans for achieving \$91.7 million in savings through the increased use of technology and other efficiency-enhancing methods. He challenged agencies to find ways to not just to save money through traditional one-time actions, but to operate government “smarter.”

The 2000 General Assembly accepted the Governor’s challenge and recommendation. Item 541 of the 2000 Appropriation Act requires each agency in the Executive Branch, except institutions of higher education, to develop a plan for increasing productivity during the 2000-2002 biennium. These plans are to generate productivity savings that amount to \$91.7 million from the general fund.

To implement this initiative, the Governor asked agencies to submit plans containing specific strategies that enhanced productivity. Agencies were encouraged to build upon previous productivity enhancing and saving techniques in developing new innovative ways to do business smarter. Agencies were also urged to think “outside the box” to develop creative means of increasing productivity and saving money for the Commonwealth both in the 2000-2002 biennium and in the longer-term.

Since technological improvements and advancements are among the key drivers of productivity increases in the private sector, agencies were instructed to place special emphasis on using technology to improve productivity. By increasing the use of technology, using electronic procurement, improving energy efficiency and improving business



processes, state government can become more efficient and effective, and will deliver a higher quality product to citizens of the Commonwealth.

In the fall of 2001, the Governor presented his plan for achieving these productivity savings. These initiatives, based largely on many excellent ideas proposed by state agencies, foster a smarter and more effective state government, while at the same time providing better service delivery to the citizens of the Commonwealth.

The Governor's productivity savings initiatives incorporated many innovative strategies and ideas generated by agencies to create efficiencies in operation. These strategies can be classified into three broad categories: technology enhancements, more efficient business practices, and cost containment actions. Technology enhancements accounted for 20.2 percent or \$18.5 million of the total savings, 49.4 percent or \$45.3 million is from efficient business practices, and 30.4 percent or \$27.9 million is from cost containment actions.

## **What Other States Are Doing: Best Practices**

State agencies long have tried to do more with less. State policy-makers are under pressure to initiate alternative ways of managing agencies and delivering public services.

One typical approach has been the use of special commissions or task forces to improve cost efficiency and productivity. As they did in the 1980s, states assemble panels of experts from the private sector, academic community, and consultants to generate ideas to save money. In the past seven years, for example, at least 18 states established such bodies. The purpose of such groups is the same: "Do more with less."

Traditional approaches to cost control and efficiency in state government include reorganization, idea suggestions, manager training and development, cash management, employee travel service control, revenue enhancement and regulatory review. In recent years, states have linked cost control efforts to strategic planning and benchmarking, restructuring, quality management and performance measurement. Some states have used comprehensive and analytical approaches to reduce budget gaps or structural deficits.

Below is a summary of productivity enhancing incentives used by various states. Most of the state incentive programs reward employees who identify the cost saving measures or allow the agency to retain a portion of its savings that it identifies.

### ***Colorado***

In 1999, Colorado began the "New Century Colorado" (NCC) initiative to modernize state government, achieve operational efficiencies, reduce costs, and improve service delivery. Among the recommendations:

- Aggregation of the state's demand and creation of statewide standards for purchases of desktop computers to reduce the per-unit cost of desktop computers.

- Creation of an on-line procurement system that generates cost reductions through aggregation of the state's currently fragmented demand and through reduction of red tape.
- A partnership with the private sector to create a statewide Internet portal, to improve access to state government services (such as online driver's license renewals) without the expenditure of a single dollar of state tax revenues to develop the system.
- A plan to implement a centralized timekeeping system for all state entities.
- Implement an online expense reimbursement system to allow employees to request and receive expense reimbursements via electronic media.

Other recommended implored the state to:

- Review new lease opportunities and perform a comprehensive evaluation of each buy/build/lease decision.
- Explore opportunities to co-locate agencies and to facilitate telecommuting for more cost-effective space utilization.
- Reduce the size of the state fleet, improve the utilization of vehicles, and pursue fuel savings. Evaluation of the merits of these proposals will suffer from a lack of central information to make an appropriate buy/build/lease decisions and facility cost comparisons.
- Revise its procurement thresholds to expedite the approval process and reduce unnecessary paperwork and review.

Another recommendation encourages the state to formalize a resource reallocation strategy to ensure that cost savings/cost avoidance and other efficiencies are accurately identified. This approach would include an emphasis on pursuing project funding alternatives in which the vendor incurs the cost and risks associated with project development. In addition, this strategy would ensure that savings/cost avoidance associated with the NCC projects are redeployed for other purposes only after the savings/cost avoidance are documented and validated.

## ***Florida***

This year the Florida state legislature allowed state agencies to pay bonuses to employees if they had unspent salary funds left at the end of the year (created by holding positions open or eliminating positions).

## ***Illinois***

Illinois' program for government efficiency is called Governing for Change. The process of embedding performance management in the culture of the state agencies was not an easy one.

Overcoming the inertia of state government proved to be problematic, but no less problematic than rationalizing the failure that would ensue from a non-effort. Highlights include:

- **Capital Development Board.** The Contract Administration unit requires an original insurance certificate before awarding a contract. This requirement caused delays and frustrated firms that bid for contracts with the state. The contract could not be awarded to the apparent low bid contractor until an original insurance certificate was received by the agency. The processing time is reduced by 80 percent, from five working days to 1 day for trouble-free certificates and from 10 working days to an average of two days for those insurance certificates requiring modifications. The agency will now accept fax copies of the insurance certificates directly from the insurance company.
- **Department of Employment Security.** The department created an "on-line" form database to reduce cost and increase customer satisfaction. Approximately 130 forms have been moved to an on-line database. The anticipated results include reduced contractual service costs for pre-printed forms, reduced warehouse space, reduced local office storage space, reduce spoilage of forms caused by age, storage and transport, and reduced destruction of outdated forms.
- **Department of Financial Institutions.** The department began using a human resource software called, PeopleTrak, which automates forms and data entry. All employee calculations are on diskette, eliminating data entry and reducing paper.
- **Lottery Department.** The Illinois lottery paid prizes by check and sent them in the mail. Now, winners have the added option of having their prize money electronically transferred directly into their bank account. This has enhanced customer service; the customer receives the money with greater speed and security. Customer satisfaction is increased with simplified, speedy delivery. Direct deposit is a less expensive method for the state to transfer funds.

Illinois is considering privatizing some services, such as:

- **Privatize Department of Corrections Dietary Services.** The Department of Corrections (DOC) recently outsourced its Dietary Services to ARA in the Joliet facility. The primary advantage is that the vendor is not regulated by the state procurement code and is not required to buy food one year in advance. This enables better pricing, less spoilage and less institutionalized meals for the inmates. By privatizing dietary services, one internal department study indicated that each facility could save \$300,000 annually or eight percent. The Administration should closely monitor the success of this privatization effort. If DOC's estimates are correct, then outsourcing all dietary services on a budget base of \$73.7 million holds a potential overall savings of \$5.9 million in FY 2001.
- **Privatize Department of Corrections Commissary Services.** The Department of Correction's Commissary Services (DOC) manages store operations for 40 prisoner stores statewide. Commissary Services purchases consumer goods at cost, marks up the price by 10 percent, and nets an average 8 percent profit used to fund prisoner programs including cable TV and special events. The stores are staffed by prisoners and managed by approximately five state employees per facility. With improved scale and

sophisticated buying and management practices, a private vendor might offer better prices and selection. Increased profits could still be used to fund prisoner programs. The department is piloting an outsourcing of the service in FY 2000 at the Pontiac facility. The Administration should closely monitor the success of this effort. If DOC's estimates are correct, then outsourcing could eliminate 200 state jobs and save as much as \$8 million (at an average of \$40,000 per job).

- **Privatize a Medium Security Facility.** Consideration should be given to privatizing (or outsourcing) one medium security facility in 2002. Outsourcing would apply to both the construction and operation of the facility. Law in Illinois presently prohibits privatizing an adult correctional facility. However if the law were changed, the most effective way to privatize would be to start with a new facility. The state has new facilities targeted for construction in 2002. Research indicates that a male medium security facility would present the best opportunity for privatization.
- **Privatize an Adult Inpatient Mental Health Facility.** The state should consider privatizing an Adult Inpatient Mental Health Facility, whose primary service is adult inpatient psychiatric care, including medication treatment, psychiatric services, counseling, and other related therapies. State provided adult inpatient mental health services would be difficult to privatize include sexually violent persons, long term developmental disabilities and forensic psychiatric hospitalizations.
- **Develop an integrated, government-wide portal through which Illinois citizens and businesses can transact business.** Implement an Internet pilot project supporting a business to government transactions. The application could begin with a limited set of transactions, such as business registration, selected permits and licenses and a few simple tax returns (e.g., sales tax), cover an initial test group and quickly scale up as needed. By quickly deploying a pilot, the state can, at a relatively low cost, allow its customers to determine the most effective service delivery channels. Illinois would see tangible cost savings from the use of electronic funds transfer and increased efficiency in processing. Business owners would benefit immediately from the ease and convenience of registering online, and completing other common transactions. Quantifiable benefits for the State will include reduced operational costs resulting from reduced data entry, increased automation of work processes, increased electronic transaction of business, accelerated cash flow resulting from increased use of electronic funds transfer, and improved service quality as a result of increased automation. Industry analysts have estimated the cost savings to be between \$2.00 - \$3.00 a form. Additional benefits include reduced cost of compliance and reduced risk of unintentional noncompliance, improved service quality, reduced cost and time associated with business startup, and greater choice, convenience and control for a customer of government services.

## ***Kansas***

For about seven years, Kansas has operated a program called the Kansas Savings Incentive Program (KSIP). At the end of the fiscal year, the state compares the approved budget with actual expenditures. Fifty percent of the difference goes into a separate KSIP account from which the participating agency can make expenditures in three categories: a salary bonus up to

\$1,000 to permanent employees, employee training of any kind, or the purchase of information technology equipment. The state keeps the other 50 percent. This tends to discourage end-of-the-fiscal-year spending binges under the concept of use it or lose it. The program has become very popular.

For an even longer time, Kansas has a suggestion award program. Employees who think of efficiency measures can submit them to a committee. The committee reviews the merit of the proposal, including soliciting comments from the agency affected. Cash awards can be made to the employee making the suggestion and a lesser amount to his or her supervisor.

## ***Louisiana***

If an agency's innovations result in savings, Louisiana tries to reward them by allowing them to retain a portion of the savings. However, there is no formal procedure. Two bills are being discussed in this legislative session that provide incentives for employees and agencies that identify efficiency-related initiatives.

One bill provides for an incentive program (Exceptional Performance and Gainsharing Incentive Program) for gainsharing and rewards (supplemental compensation) for state employees in agencies and programs that have demonstrated verified savings (less money expended than was appropriated) or consistently superior performance. The Legislative Auditor makes the determination of demonstrated savings. The purpose of the bill is to encourage agencies to achieve the maximum efficiency in their operations.

The legislation creates an Incentive Fund that is funded through deposits of a portion of the unexpended monies returned to the general fund at the end of the fiscal year. Note that the bill requires the state treasurer to transfer to the fund all cash balances that are subject to remission to the state treasury. The annual deposit ceases when the fund reaches \$4 million and recommences when the fund falls below \$3.2 million. All unexpended and unencumbered monies in the fund at the end of a fiscal year remain in the fund. Monies in the fund are dedicated to the incentive program. Payment of rewards is effectuated through presentation of a warrant by the designated agency to the state treasurer.

The second bill creates a gain sharing program that creates an incentive program for agencies to develop and implement plans that reduce spending while at the same time deliver the required services and result in a determinable monetary savings to the state. In order to qualify, the savings must be due to a direct result of specific actions that are determined to result in spending less than was appropriated for salaries, operating expenses and other objective cost savings.

The proposed law provides that if the agency head demonstrates that a cost savings has been realized, then fifty percent of those identified savings would be retained by the agency for spending in accordance with a pre-submitted plan of utilization and disbursement which must include a minimum distribution to employees of at 50 percent of that portion.

## ***Maryland***

Allows agencies that implement savings during the fiscal year to use the savings in other objects of expenditures. They might use this flexibility to address emergencies, to fund one-time costs such as equipment or renovations, or to shift resources from lower to higher priorities. If an agency wishes to transfer funds from one program to another, the Governor's approval is required. It is important to note that Maryland tends to fund agencies at a bit less than the estimated cost of current services, so agency cost savings are necessary just for agencies to manage to their budgets.

Maryland also has new legislation, which will take effect next year, which will allow the budget department to approve the carry-over of \$1 million in unexpended appropriations statewide for special projects. The state has yet to determine how it will utilize this authority.

## ***Massachusetts***

There are several programs in Massachusetts state government aimed at enhancing performance, at both the agency and individual-employee levels.

### **Agency Incentive Programs**

#### ***1. Revenue Maximization (also known as Revenue Optimization)***

Program to maximize non-tax revenue was established in Fiscal 1996 and is re-authorized annually. Rev. Max. (or “Rev. Opt.”) provides monetary incentives to agencies for identifying new revenue streams; in recent years, projects entailing federal reimbursement have predominated. Agencies are authorized to contract with vendors as necessary to assist in identifying and developing projects. Vendor compensation is netted from projects’ gross revenue. Department incentives are awarded on the basis of the projects successfully implemented statewide up to, in Fiscal 2001, \$3 million. The program is administered by the Executive Office for Administration and Finance, the Comptroller’s Office and the Fiscal Affairs Division (the Commonwealth’s budget office) and monitored by both Committees on Ways and Means.

#### ***2. Cost Avoidance Program***

The cost avoidance program also was established in Fiscal 1996 and is reauthorized annually. The goal of the program is to encourage agencies to pursue cost avoidance opportunities in existing programs (primarily through the implementation of information technology enhancements.) Agencies may contract vendors to identify cost avoidance projects; vendors are compensated from the certified savings. Although the agencies do not receive direct monetary incentives as is the case with the Rev. Opt. program, this program affords agencies a risk-free investment for which they may direct saved budgetary funds to other programs.



## Employee Incentive Programs

### *Suggestion Awards Initiative*

The Suggestion Awards Initiative was established in Fiscal 1998 and is headed by a Board comprised of the Comptroller, the Budget Director, and the Secretary of Administration and Finance. This initiative provides monetary incentives to non-management employees for suggestions or ideas that reduce costs, promote efficiencies or generate additional non-tax revenues for the Commonwealth. Employees are eligible for up to \$5,000 per suggestion, which is calculated at 10% of the savings or revenue generated in the twelve months beginning with the date of a suggestion's implementation. In all, the Suggestion Awards Board grants three levels of awards:

- ✓ **Honorable Mention Awards** : Certificates to employees who deserve special recognition for their suggestions. These ideas often have a positive effect on public processes/procedures, but would result in no measurable cost savings or revenue generation.
- ✓ **Suggestion Awards** : Certificates of recognition granted to employees who submit suggestions that could potentially reduce operating costs in state government or generate additional non-tax revenue for the Commonwealth.
- ✓ **Cash Awards** : Monetary awards, as detailed above, granted to Suggestion Award winners for their efforts in devising and spurring the implementation of suggestions or changes that generate savings or revenue.

A Task Force on Employee Incentives was formed in late 2000 at the direction of the Secretary of Administration and Finance. The Task Force is to evaluate existing Commonwealth incentive programs and other organizations' and states' practices, and to suggest reforms as comprehensive as necessary to maximize both agency and employee incentives to enhance performance. The Administration is expected to file legislation incorporating the Task Force's findings before the end of 2001.

### *Michigan*

In 1994 the Michigan Governor established the Secchia Commission to study ways of making state government more efficient. Among the Commission's findings were that state law provides few incentives for agencies to be frugal with appropriated funds. If there was a greater possibility to carry forward some funds saved from the prior year into succeeding fiscal years, agencies would have a greater incentive to spend more carefully.

Recently, the Michigan Governor charged each state agency with the task of reducing general fund spending by one percent to bring spending more in line with available revenues. Agencies also had to put together larger reduction proposals in case the economy does not turn around. Agencies varied in their reduction proposals. Some eliminated duplication of staff or services. Others identified lapse monies or work projects that could be delayed or were unnecessary. The Governor also implemented a more restrictive hiring freeze, which promotes hiring from within and grooming your workforce. Staffing in critical service areas (i.e. child protective service workers, correctional staff and season staff) were excluded from this.

In the budget process, the state budget office expects agencies to provide information on how much it will cost to maintain the status quo (without changes, enhancements). Then it challenges agencies to defend why they offer the services they do, and explain how they fit into the overall goal/objective of the agency. Agencies have to submit performance measurements so the budget office knows that the monies are achieving results. The budget office works closely with agencies in developing the performance measurements.

Michigan has a suggestion award program called the Quality Recognition System, under which employees submit ideas that offer efficiencies or savings. They receive recognition if the idea is adopted. In 1998 the Suggestion Awards Program was expanded to include retired state employees and to recognize teams who suggest continuous process improvement and process performance measures.

Michigan has formalized this process by setting up the Office of Performance Excellence, a joint venture between the Department of Civil Service and the Office of the State Employer. The mission of the Office is to be a catalyst for continuous improvement of performance in state government to better satisfy customers and stakeholders. The Office administers the Quality Recognition System, which was developed to assist departments and agencies in recognizing teams that implement improvements to organizational processes. The team and their sponsor will recommend the form of recognition and how they will use it. Appropriate items could be cash, gift certificates, luncheons, apparel, etc

## *Missouri*

In 1994, Governor Carnahan through an Executive Order established the Commission on Management and Productivity to conduct a major review of state government, evaluate its strengths and weaknesses, and prescribe reform. The Commission's recommendations included proposals to:

- Establish a Performance Appraisal System that incorporates agency goals, including customer satisfaction, diversity, management/supervisory leadership, professional and personal development.
- For each department should implement a non-financial, department-driven employee reward and recognition program.
- Adopt a fully performance-based budgeting system for resource allocation that is mission-driven and oriented toward quality outcomes, encourage managers to be efficient, reward innovation and provide outcome data to decision makers
- Create an ongoing process by which to identify, select, and act upon consolidation, privatization, effectiveness, and efficiency improvement opportunities. Create a Council on Efficient Operations and an implementation team to identify, select, implement and evaluate opportunities for such projects.

## ***Nebraska***

Nebraska uses a process that sets a target for a reduced number of employees and negotiates a redirection of some portion of savings to technology or other efficiency measures with the balance representing a budget reduction or alternatively no budget increase.

## ***New York***

Under the current administration, New York has made what representatives call sweeping changes to reduce spending and become more fiscally responsible. This has allowed them to receive a two-step credit rating upgrade, moving them up from the second worst state to the 21<sup>st</sup> best. They were able to achieve this by revamping operational processes, consolidating state agencies, and eliminating programs considered unnecessary. Their continuing goal is to ensure that services and programs are being delivered in the most efficient manner possible and that the state is taking advantage of new technology, while avoiding redundant or unnecessary operations.

Some of the state's specific efforts include:

- The Higher Education Services Corp. developing web-based software that will streamline its operations and enable students to apply for financial aid and loans through the Internet.
- The Department of Transportation is creating a new computer-based "paperless shop" system for the Equipment Management Division.
- Food quality inspectors carrying laptop computers to submit their reports from the field to agency headquarters electronically, increasing productivity and reducing overtime costs.
- Utilizing state-of-the-art "distance learning" technologies to deliver education and training services to district offices and providers of the Office of mental Retardation and Developmental Disabilities.

## ***Ohio***

In the early 1990s, at the start of state government's journey to high performance, Ohio began by focusing on training and teams. The effort began on two separate paths, both heading in the same direction. The Operations Improvement Task Force established by then Governor George V. Voinovich recommended that the principles and practices of quality improvement become the way of doing business in state government. And the Ohio Civil Service Employees Association negotiated language into the bargaining agreement regarding mutual interest joint actions aimed at improving productivity and quality. With leadership from the Governor, Cabinet and the five state employee Unions, the two paths soon became one -- and the new partners began to create a new way of serving Ohio's citizens.

Since its inception, thousands of people learned the tools and techniques of quality, and many served on process improvement teams, solving real problems and achieving better results for their customers. Ohio's Quality Services through Partnership (QStP) program provides a means for achieving this priority.

Today, training and teams remain important, but Ohio has expanded its view to include leadership, strategic planning, measurement, and other key ingredients of a high performance workplace. These categories provide a systematic approach to becoming a high performance government -- a place that brings out the best in its employees and delivers the best to its customers

## ***Pennsylvania***

Pennsylvania created PRIME, which stands for Privatize, Retain, Innovate, Modify, and Eliminate, to produce positive change within the Commonwealth. PRIME is Pennsylvania's initiative to give state government the competitive edge – making it more customer-centered, cost-efficient, and globally competitive.

PRIME looks at every office and agency within state government and asks if the office still serving a core function of state government and whether it providing services needed in the Pennsylvania of the 21st Century?

Every state agency was directed to form an Innovation Team (I-Team), comprised of employees from all levels of the organization. Employee I-Teams established their own priorities and timelines for completing the over 300 recommendations for change. An Executive Order also created the PRIME Council, which plays an advisory role in the process. Council is composed of 13 individuals from both the public and private sector.

Some of the initiatives implemented in Pennsylvania include:

- Reduce the level of reserve funds of the Pennsylvania Employees Benefit Trust Fund and develop a policy for linking future reserve levels to the actual cost of claims.
- Establish an investment policy to increase the average yield of the State Employees Retirement System (SERS) 25 basis points above nine percent
- Forego two cost of living adjustments over 10 years and eliminate 30 and out and other one-time exceptions to SERS
- Improve efficiency and effectiveness of depository institution examinations and apply risk-based approach to maintain consistency with other examining agencies.
- Create an interagency team to explore sharing of information technologies and encourage information exchange.

## *Texas*

The Texas Incentive and Productivity Commission (TIPC) is empowered with developing policies, procedures and rules to administer a statewide program for rewarding state employees, state agencies, and divisions of state agencies for cost-saving recommendations.

Texas has established a State Employee Incentive Program (SEIP) that allows one or more employees to receive an award if their suggestion reduces state expenditures, increases state revenues, or improves the quality of state services. The SEIP is a traditional employee suggestion system designed to improve efficiency, safety, and customer service in state agencies. Approximately 300,000 employees in the executive and judicial branches of government and state institutions of higher education are eligible to participate.

The suggestion must be submitted to and reviewed by the agency's SEIP coordinator and then approved by the TIPC. Upon implementation, the agency will be responsible for "encumbering" or transferring projected net savings amounts into the SEIP Savings Measurement Account (SSMA). At the end of the first year's implementation period, the SSMA is to be reconciled for the difference between the projected and certified net savings.

If the certified net savings of the approved suggestion results in \$100 or greater, an agency allocation must be made as follows:

- Ten percent or less paid to the employee(s) submitting the suggestion, not to exceed \$5,000.
- Ninety percent or more retained by the affected agency for agency operations.

Net savings/net revenue is the monetary amount measured during the year of implementation of reduced expenditures, increased revenues, or increased productivity attributable to the employee suggestion versus the previous procedure, system, equipment, standard, or material. This includes adjustments for the costs of implementation, inflation, and other factors deemed by the TIPC as distortions of the actual quantitative merit of an implemented suggestion. During this year, the amount of reduced expenditures or increased revenues are monitored to determine the net monetary impact of the implemented suggestion. The TIPC then certifies the net savings amount submitted by the agency.

Only upon certification of the agency's net savings/net revenue by the TIPC does the agency have authority to spend it. The TIPC may grant an award before the completion of a full implementation year if the suggestion involves a one-time savings or if the TIPC finds the agency's projected savings to be based on a reasonable methodology.

In December 1988, three state employees submitted suggestions to the newly formed Texas Incentive & Productivity Commission's State Employee Incentive Program (SEIP). Over 9600 suggestions later, taxpayers are \$13.8 million better for the state's investment in the SEIP.

Not all SEIP suggestions net tangible results. Some benefit state government through improvements in safety, efficiency and productivity. Of the 894 suggestions approved as of the end of FY 2000, 614 fall in to this category. Beginning September 1, 2000, approved

suggestions that do not otherwise qualify for a cash award are eligible to receive a recognition award in the amount of \$50.

For more information on SEIP, see the Texas Incentive & Productivity Commissions' Website at < <http://www.tipc.state.tx.us> >.

## ***Washington***

The Savings Incentive Program was created in 1997 by legislative passage of Governor Locke's initiative to promote efficiency in agency spending and help to support public schools. Through guidelines set out in statute and in appropriations bill language, agencies are credited with one-half of all yearend general fund balances not related to entitlement or other targeted spending authority such as entitlement programs, higher education, debt service, and retirement programs. Remaining savings are directed to the Education Savings Account, 10 percent of which is transferred to Higher Education for distinguished professorships, the graduate fellowship trust fund, and the college faculty award trust fund. The balance may be appropriated for common school construction and education technology.

The authorizing legislation limits Savings Incentive Account expenditures to one-time activities that improve the quality, efficiency, and effectiveness of customer services in agencies. Since the amount of this resource is unpredictable, it may not be used to create new or expanded services, or to incur ongoing obligations.

Based on the amount of eligible unspent general fund appropriations in Fiscal Years 1997, 1998, and 1999, agencies have received a total of \$15.9 million in credits in the Savings Incentive Account. An additional \$2.2 million from Fiscal Year 2000 reversions will bring this total to \$18.1 million. Because the Savings Incentive Account is not appropriated, credits remain with the agency until they are spent. As of the end of Fiscal Year 2000, agencies had used \$7.3 million of the \$15.9 million in available funding.

Agencies used the savings for staff training, technology, and work process improvements. Below are some examples of how agencies expended the funds. Some specific examples included:

- leadership training to prepare executives for changing leadership requirements.
- web page design and maintenance to enhance customer communications.
- quality telephone improvement projects to emphasize the importance of high quality telephone service to customers.

Several agencies purchased server and server upgrades to improve the reliability and speed of information shared within the agency, and provide improved access to information by customers.

In the 2000 legislative session, Washington also proposed that this idea be broadened to include dedicated accounts, but the Legislature did not approve this change, partly because of the concern that dedicated accounts shouldn't be used for things that their dedicated nature does not permit.

## ***West Virginia***

West Virginia agencies are encouraged to seek out opportunities for resource sharing in order to reduce equipment costs and eliminate duplication of effort. For example, West Virginia does not have a centralized motor pool. Selected agencies have full time use of vehicles for which they are financially responsible. Other agencies typically have to rent a vehicle when it becomes necessary to travel on state business. Now these agencies are being encouraged to “rent” their vehicles from agencies with vehicles that may be sitting idle. A second example given was the use of postage meters, where agencies are encouraged to share the cost of purchasing and using this equipment.

An initiative that is currently under consideration would allow agencies that implement savings during the fiscal year to carry over those savings for use toward predetermined goals. Currently it seems that some agencies are choosing to fund capital acquisitions (such as equipment) or renovations over time. It is believed that there could be significant cost savings if these acquisitions or renovations were paid for at one time. Therefore, agencies will be encouraged to plan for these types of expenditures and to save for them over time. As long as they had a goal they were saving toward they would be able to keep any savings. If they do not have such a goal, their cost savings would revert.

## **Federal Government Experience**

### ***Results-Oriented***

In recent years, the federal government has been moving toward a results-oriented management approach. Congress created the framework with the Government Performance and Results Act and the Chief Financial Officers Act. The Results Act requires agencies to set performance goals and measure their actual results and to link performance to budget. In the 2002 performance plans to be submitted to Congress, department and agency heads must include performance goals for presidential initiatives and for government-wide and agency-specific reform proposals. It is a priority of the current administration to ensure that there is a better linkage between agency budgets and their performance.

Financial accountability has also been highlighted as a priority. Agency heads are expected to obtain and maintain unqualified opinions on their agencies’ annual financial statement audits. Heads of the agencies without clean opinions are expected to “attack vigorously” any deficiencies that prevent clean opinions. Agencies are being directed to develop rigorous controls to ensure that federal funds are disbursed at the correct time and in the proper amount.

Although there is little detail available at this time, the administration intends to re-deploy resources from old priorities to make room for new priorities by reducing or eliminating funding for programs that have completed their mission or that are redundant, ineffective, or obsolete. They are looking to expand the use of performance-based service contracts. Agencies will be required to convert their service contracts to performance-based wherever possible.

While there are few details currently available, there is an acknowledgement that federal workforce reforms are necessary. The administration will be looking for opportunities to incorporate successful private sector reforms throughout the federal workforce, including ways to reward achievement and encourage excellence. Agencies are required to conduct strategic workforce planning. The GAO will develop and promulgate a workforce self-assessment guide and identify best practices for workforce management, including alternatives for activities such as attracting, retaining, developing, managing, and rewarding talented employees.

### ***Making Government Market-Based***

In an effort to lower costs and utilize market-based solutions wherever possible, agencies are expected to move to paperless contracting processes in which information from one step of the process is automatically fed to the next step in the process, eliminating the need to re-enter data. Procurement data will be linked to financial systems, making the payment process both faster and more accurate. Agencies will also expand use of “share-in-savings” approaches, in which market incentives reward contractors who can retain a portion of any savings that result from innovation.

Agencies will open government activities to competition. Agencies will be allowed to use an open, competitive process, considering both public and private bidders, to choose providers for services that are not so sensitive in nature that they require performance by a governmental employee. It is estimated that agencies average savings of 30 percent when a private contractor wins and 20 percent when the public sector wins in this type of open competition for commercial activities.

### **Recommendations**

The following seven recommendations are being made to encourage more productivity among Virginia state agencies and to streamline governmental operations by “doing more with less.” These recommendations incorporate the best practices found in Virginia State government, other states, and the federal government.

1. Perform a critical reassessment of state government services.
2. Make doing “more with less” part of the culture of state government
3. Provide a viable rewards and recognition program for state employees by strengthening the state’s Employee Suggestion Program
4. Implement a gainsharing approach that allows agencies to retain a portion of the cost savings that they identify.
5. Establish a program that allows state employees to share in agency savings.
6. Establish and fund a venture capital program that makes dollars available to state agencies and institutions of higher education for one-time purchases to be repaid with savings.
7. Encourage joint ventures among state agencies and institutions of higher education.



## ***Perform critical reassessment of state government***

As Governor Gilmore seeks to find ways to make government more productive and streamlined, a reassessment of the state bureaucracy needs to take place. Some of the questions that need to be asked are: are we doing more than what we should? Do we need the same number of agencies that we currently have? Are there current policies and processes in place that are obsolete? Is state government being effective in the services it offers?

It is recommended that all agencies, commissions, and boards be reviewed to determine if 1) they are carrying out their mission; 2) they are doing so effectively and efficiently; and, 3) if it is appropriate for that agency/commission/board to continue to exist. Do like Michigan did and challenge agencies to defend why they offer the services they do, and explain how they fit into the overall goal/objective of the agency. Where similar or duplicative services are being offered by more than one state agency, consider merging them together. Or, consider dissolving agencies that are no longer needed. Have each agency perform a buy/build/lease analysis. Also, determine what changes can be made through administrative actions such as an Executive Order.

## ***Modify culture of state government***

When asking the question of how to empower state employees to do more with less one needs not to look any further than what should be changed; the culture of employees within state government. The current culture of many state employees suggests that doing more with less is a negative process that ultimately removes vital resources, eliminates programs, and even eradicates jobs.

While much has been done in recent years to deter unnecessary spending, eliminate inefficient and costly practices, and focus on technological advancements very little can be linked to changing the negative stereotype associated with doing more with less.

In order to build employee morale and unleash employee potential several recommendations are offered. Remember, the more time and resources allocated to empowering employees the greater the return of investment. With an empowered workforce, dedicated to the principles of saving taxpayers dollars and becoming more efficient, true and significant savings can occur.

**First, Flatten Management;** Improving Virginia government hinges on the development of plan of action for flattening management. In the mid 1990s the agency ratio of supervisors to employee was 1: 4.5. Over 7,500 supervisory positions existed that supervised two or fewer employees. Of the 15,400 supervisors, 28 percent (4,300) supervised one other person. Employees like to feel important and aspire to become accepted in their organizations. The more they are “supervised” the less likely they are to think independently and innovatively. Moreover, the greater freedom afforded to employees the more productive and appreciated they become

**Second, Develop Awards and Incentive Programs;** All employees want to feel valued and appreciated for their work, their knowledge, and their skills. Managers that do not praise and adequately reward their employees quickly find themselves the leader of an unprovoked staff. Therefore, it is recommended that a greater focus be placed on supervisors recognizing

employees that perform in an exemplarily fashion. Some cost efficient ways includes, but are not limited to, writing thank you notes, personal phone calls from top-level managers (Governor, Cabinet Secretary, agency or section head), time off, email acknowledgments, achievement awards, and most importantly open praise.

**Third, Greater Focus on Self-Esteem and Self-Awareness;** Managers must empower employees to recognize the importance of their employment and the service that they provide to the public. Contented employees with well established meaning and purpose are more likely to be efficient than employees whom are disenfranchised. Employees need to understand that they are responsible for the expenditure of taxpayer dollars.

**Forth, Open Communication;** Communication is the glue that holds all of these recommendations together. From the top executives in the Governor's Office to the one-on-one supervisor in the agencies, all levels of communication must be improved. Employees whom are entrusted by their superiors with information feel more included in the administration, the agency, or the section decision-making process. Well-informed employees are good and productive employees because they feel involved. Therefore, they are more willing to see their superiors as trustworthy co-workers and spend less time questioning decisions and the vision of the organization.

### ***Strengthen the Employee Suggestion Program***

The Employee Suggestion Program draws its strength from the belief that the employee performing the task is closest to the work and therefore is in the best position to determine how to improve the effectiveness and efficiency of the way the work is performed. Much of the decline in the effectiveness of the Employee Suggestion Program (ESP) can be attributed to its decentralization in 1994. With fewer suggestions, the effect has been to reduce the streamlining of processes or instituting new procedures that would increase the savings and efficiency of services to the citizens of the Commonwealth. The decentralization of the process provides no mechanism for sharing the creative, cost saving ideas between agencies. Therefore, decentralization has minimized the potential for interagency benefits from the suggestions.

To rectify this situation, it is recommended that primary responsibility for the ESP be returned to the Department of Human Resource Management (DHRM). The DHRM would provide for the necessary support for administering, coordinating, marketing, and evaluating an active ESP and promulgating policy. In this capacity, DHRM would forward suggestions to the appropriate agencies for evaluation and prepare policy manuals. To better keep track of suggestions, an automated tracking system should be developed. DHMR should be able to absorb this additional responsibility within existing resources.

To market the program more effectively, it may be beneficial to change the name of the program. State employees could participate in the naming. To provide guidance to the program, DHRM should establish an advisory committee made up of management and rank and file employees from state agencies.

To make the program more effective, it is also recommended that eligibility be extended to retired Executive branch classified and wage employees. Groups of employees should also be eligible for awards.

### ***Initiate Gainsharing by state agencies and institutions of higher education***

The Governor's challenge to agencies during the 2000-2002 budget process was to not only find ways to save money through traditional one-time actions, but to operate government "smarter". This resulted in initiatives that foster a more effective state government while, at the same time, providing better service delivery to the citizens. This type of innovative thinking should be an on-going process in state government. The concept of Gainsharing, which has been successfully adopted in several other state and local governments, would provide added incentive to agencies and institutions to further the Governor's call-to-action for cost containment and a smarter government. This concept would have the added benefit of discouraging the fiscal year-end spending in agencies with general funds under the philosophy of "use it or lose it".

To promote continued efficiency in agency spending, and to incite all state employees to efficiency and effectiveness, it is recommended that the Governor adopt a Gainsharing program for executive branch agencies and institutions of higher education. Through guidelines established in the appropriations act, agencies with demonstrated savings would be allowed to retain a percentage, suggested to be 50 percent, of their remaining year-end general fund balances not related to entitlement or other targeted spending authority, such as debt service. Agencies could then spend these funds in accordance with a pre-submitted utilization plan, which must include a minimum distribution to employees, also suggested to be 50 percent of the agency's portion. The employee portion could be used to fund performance bonuses, employee training, and other incentives.

### ***Initiate Gainsharing by state employees***

Generally speaking, the people with the most detailed knowledge of the workings of a given process or area are the employees directly responsible for this function. In order to encourage these employees to suggest ways to cut costs and yet improve performance it is recommended to allow the employees to share in the overall agency savings. In this manner these employees are not being penalized when they identify ways to cut costs, improve processes and ultimately reduce their budgets to do the same amount or more work. The remainder of the savings would then be returned to state.

In order to be successful, this program must be structured in a manner that captures the support, enthusiasm and ideas of the agency employees. Getting the employees to "buy-in" to this program from the start is critical. The employees, including managers and supervisors, must also realize they will ultimately be held accountable for the required service levels as well as the overall affects of the proposed cost saving suggestions. This approach will empower the employees and at the same time maintain a high level of accountability.

One possible direct incentive for an employee or group of employees (specific department or unit) is a cash bonus based upon the overall cash savings recognized in the budget as a result of

the proposed improvements made by these employees. Another approach is to have the departments identify specific items or services they would like to procure with their portion of the cost savings when they are realized. These should be items that would continue to increase productivity and yet may not currently be attainable in the current budget. Upgraded technology and additional employee training are two examples or possible uses of these savings.

The overall concept of this program is a “win / win” proposition since any funds used as an incentive for the employees come directly from actual recognized budget savings. The end result should be overall improved employee morale as well as an increase in the performance of these workers.

### ***Establish Venture capital funding***

There are a number of situations in which state agencies lack the upfront funding to make one-time equipment or technology purchases that will result in long-term savings to the Commonwealth and the agency. Hence opportunities for continuous improvement, increased productivity, and cost savings are at best delayed and, more often, lost entirely.

History has taught us that those organizations that invest in the future were successful and those who did not were left in a cloud of dirt. These precepts are similar for government or to those of a business in a competitive market. In the latter case, the business provides research funding or seeks venture funding to remain competitive. Government must also invest to provide timely value to the citizens.

To rectify this situation, it is proposed that funding be provided to establish a Virginia Governmental Venture Fund to be administered by the Secretary of Finance. The fund will be set up as a revolving loan fund. An initial general fund appropriation would be required as seed money to establish the fund. Agencies would then repay awards from savings generated. The repayments would replenish the fund. The ultimate goal is for the Virginia Venture Fund to become self- supporting from the realized savings.

Agencies and institutions desiring an award would submit a proposal for review. Awards would be based upon merit and the amount of potential general fund cost savings to the Commonwealth. A panel of financial experts and others who have the appropriate technological expertise would evaluate the proposals.

Examples of projects that could be funded through this concept are:

- ✓ Cook-Chill technology
- ✓ Ozone laundries
- ✓ Energy management

In the early 1990s, the mental health system changed its food preparation to the more state-of-the-art cook-chill concept, under which food is prepared one to three days in advance, quickly chilled, plated, delivered to serving areas, and reheated to serve. The facilities reduced food

services staffs because food preparation went from a seven-day extended operation to a five-day, single-shift operation. This concept could be extended to other agencies.

Ozone laundry systems use advanced proprietary processes to electrically generate ozone gas that is used as a commercial laundry oxidant. The laundry systems inject ozone gas into wash water, dramatically transforming the laundry process. Laundries then wash in fewer cycles and use cold water with reduced chemistry e.g., soap, bleach etc., which cuts their operational costs.

### ***Encourage Joint ventures among state agencies***

The sharing of and pooling of resources between agencies will directly impact the effectiveness and efficiency of procurement, distribution of supplies and employee services. Cost savings will be reflected by the reduction of personnel, equipment and distribution points. Statewide contracts with point of use delivery combined with statewide instead of agency buying power will result in the efficient use of storage facilities, reduction of shelf time and overall handling related to numerous routine supplies and services.

Areas of consideration should include but not be limited to (1) a Payroll Services Bureau to process and distribute all checks and handle payroll matters statewide for all agencies. (2) A Human Resource Bureau to consolidate personnel matters such as health insurance and other general matters. (3) A statewide contracting Bureau to contract for supplies, furniture, cars, gasoline, tires, etc. With today's technology 24-hour at point of need delivery can be expected. This would reduce storage costs, lost and damaged equipment and unused surplus supplies. It would also reduce unit costs to each agency.

This program could be enhanced by statewide or at least regional vendor contracts. An example would be the purchase of tires statewide or regionally with a vendor contract to store and install these tires as needed. Agencies such as the Highway Department, State Police, and the Department of Corrections would not have to have their own individual tire contracts and store a multitude of tires for installation when they could each just go to the same vendor, purchase tires from the same state contract and have the old tires disposed of at the same time.